(1949) Department.

MS. SERIES.

G.O. No. 541

Dated 5--3--1949

[Despatch Abstract.]

Taxation - Tax on letting value of immovable properties in Urban areas Levy - Proposal dropped - Papers recorded.

Rev. Department.

emo No.4585-ELC/46-6, dated 2-7-47.

Taxation - Urban immovable Property Tax - Levy. - Proposal.

Due to the conditions created by the War, there has been on abnormal increase in the value of buildings and lands, especial in big cities like Madras, Coimbatore, etc. It has been suggested that the State should step in and take a share of this unearned increment,

2. A Provincial tax on urban immovable property already exists in Bombay and Punjab.

In Bombay, the tax is levied in Bombay city, Ahmadabad Cantonment and a few municipalities, probably the major ones. The rate is (1) in Bombay City, 5% of the annual letting value of the property if the value does not exceed Rs.2.000 and 10% if it exceeds Rs.2,000 and (2) in the other areas, 5% of the annual letting value of the property if the value does not exceed a certain amount to be fixed by the Govt. eeds that amount. The tax is collected in Ahmedabad Cantonment by the Collector as an arrer of land revenue. In other areas, it is collected by the Municipality concerned, in the same manner as the property tax is collected — if no property tax is collected, in such manner as the Govt. may prescribe. The municipalities are given a rebate towards the cost of collecting the tax.

In the Punjab, the tax is levied in 272 rating areas which probably ~~will~~ means all the towns in the Province. The rate is 5%, with a surcharge of 2½%, of the annual value of the property if the value exceeds (a) Rs.300 in the rating areas of Lahore and Simla and (b) Rs.240 in the other areas. The surcharge was in force for the duration of the War and one year thereafter. The tax is collected by the District Excise

and Taxation Officers and Assistant Excise and Taxation Officers, assisted by the Inspectorate staff all over the Province, as an arrear of land revenue.

3. In this Province, the local bodies are now levying a property tax on all property within their jurisdiction, at varying rates. The average rate is about 20% of the letting value. If a Provincial tax on urban immovable property is introduced in this Province, it will, in effect, be increasing the rate of the present property tax. Two questions arise for consideration viz:

(1) whether the property-owners can bear the increased rate? It has been pointed out in this connection that, even assuming that they can bear it, the present rise in value is presumably only temporary and may disappear in a short time.

(2) Whether there will not be a wide-spread clamour from the local bodies that the benefit of the increased rate should go to them? It has been pointed out that, as the finances of most local bodies are not satisfactory, it will be difficult to resist their claim for the proceeds of the proposed tax.

4. In the Madras Town-Planning Act, 1920, and the Madras City Improvement Trust Act 1945, there is provision for the levy of a betterment tax. In strict theory, this tax is leviable only on the rise in values directly due to specific improvements undertaken by a public body, and it should not take into account the rise in value due to extraneous circumstances like inflation, etc. But, under the two acts referred to it is not possible to follow the principle strictly. It would be reasonable therefore, to exempt the areas where the betterment tax is levied from the proposed urban immovable property tax or, at any rate, levy only one of the two taxes in those areas. The attention of the Board of Revenue is in this connection invited to its Ref.Mis.1291. dated 1-9-45.

5. It would be necessary to prevent the shifting of the tax by the owner of the property to the tenant, by making suitable provisions in the Act.

6. The Board of Revenue, the Inspector of Municipal Councils and Local Boards, Director of Town Planning and the Chairman, City Improvement Trust Board are requested to examine the proposal for the levy of a provincial tax on urban immovable property, on the lines of the tax levied in Bombay and Punjab in all its aspects and in the light of the observations in the preceding paragraphs, and to offer their remarks. An Estimate of the probable additional revenue that could be realised by the proposed levy of tax may also be furnished.

Bd. of Rev.
ector of Municipal Cls. and Local Boards.
ctor of Town Planning
Chairman, City Improvement Trust Board.

/True Copy/

Copy of letter from the Inspector of Municipal Councils and Local Boards, Madras, L.Dis.No.27403/47, dated 21-8-47, to the Secretary to Government, Revenue Department, Madras.

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Sub: Taxation - Urban Immovable property tax - Levy proposal.

Ref: Government Memorandum No.4585.MLC/46.6, dated 2-7-47.

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I offer below my remarks on the points raised in the Government memorandum read above.

Para 3(1). In the case of Municipalities which have provided all amenities, the rate of property tax is generally about 20% of the annual rental value. Even in cases in which all amenities have not been provided, such amenities have to be provided and the rate of tax has to be increased for that purpose. In certain cases, the rate is as high as 25% even though all amenities have not been provided. The Government in the Local Administration department have adopted certain conventional limits for the levy of property tax based on the various amenities provided and these limits have already been exceeded in the case of a number of articles. Many Municipalities have not provided protected water supply and scientific drainage and these have to be taken up as a post-war development scheme. This involved a further increase in the rate of tax which is already high in a number of cases. Further, several Municipalities have not been able to give effect to the revised scales of pay to their employees, on account of the financial position being unsound. The property tax has to be increased in the case of such municipalities - to meet the extra cost involved in giving effect to the scales of pay, as this is the only major expanding source of income. It would thus appear, that in the case of several Municipalities, property owners will not be able to bear an additional tax on properties for provincial purpose. If the Municipal taxation, which property owners may have eventually to bear (after all amenities are provided and revised scales of pay for the staff are introduced) is taken into account property owners in very few towns will be able to bear an additional provincial tax, There is also the possibility of the present rise in the value of properties being only temporary.

Para 3(2): There will [illegible] be a wide clamour from the Local Bodies against the proposed tax. The finances of Local Bodies are far from sound and most of the Municipalities have yet to provide a proper and adequate protected water supply, a scientific drainage, good and if possible dustproof surfacing for roads, good buildings and playgrounds for their elementary schools and a number of other amenities. Property tax is practically the only expanding major source of income for the municipalities. ~~The levy of a provincial annual tax on properties will limit this source and stifle several municipalities.~~ The levy of a provincial annual tax on properties will limit this source and stifle several municipalities, and their clamour against the tax will, in the circumstances, be a reasonable one. If however, the Government decide to levy the tax, it is suggested that the Government may levy a surcharge on sales tax - say at half a pie per rupee - for the benefit of Local Bodies and distribute the proceeds amongst the local bodies on the basis of Population to compensate them.

Para 4: Betterment contribution is now limited to half of the increase in value of the land alone. The proposed tax will, however apply to the rental value of both land and building. Obviously the tax will apply alike to buildings constructed before and after the war. There will be no question of increase in the value of buildings constructed after the war. Again the tax will have obviously to be paid even by persons who purchased properties after the war at the present market rates. Thus, it is not possible to ensure that the proposed tax affects only persons who have secured a benefit by the unearned increment in value/secured by the owner of the property. All the same it seems desirable to exclude properties subject to the levy of betterment contribution from the scope of proposed tax, so that the amount of tax to be paid by the owners of such property may not be oppressive but this exemption need not be continued after the owners ceases to pay betterment contribution.

Para 5: The normal method by which the burden of the tax can be shifted to the tenant is by an increase in rent and if the burden is not to be shifted, enhancement of rent has to be prohibited, Such a prohibition now exists in the shape of rent control, which, however, applies only to buildings constructed before October 1946. If the owner is prohibited from increasing the rent, the increase in the value of property does not help him. It is doubtful, whether it will be fair to levy a tax on the ground of increase in the value of property and at the same time prohibit him from deriving any benefit on account of that increase. Further, rent control may have to be extended to buildings constructed after October 1946 also, if the owners of such houses are to be prevented from passing on the burden of the tax to the tenants and if this is to be done, the basis of control may have to be altered as the present basis of rent paid during 39-40 cannot apply to buildings constructed after October 1946.

2. The total income under house tax of all municipalities is about Rs.55 lakhs. Assuming the present average rate to be about 20%, one per cent of the proposed tax may amount to about 2.75 lakhs if it is levied in all municipalities. Allowing for the exclusion of properties subject to betterment contribution, one percent of tax may safely be estimated to yield Rs.2.½ lakhs.

3. In the circumstances stated in para 1 above, it does not appear desirable to levy the proposed tax.

/True Copy/

REVENUE DEPARTMENT.

Subject:

TAXATION - Urban Immovable Property Tax - Levy-Proposal - Remarks - Submitted.

B.P.Mis.1299

STATION: MADRAS. Dated 22-9-1947.

From

T.M.S. MANI ESQ., O.B.E., I.C.S.,
Secretary, Board of Revenue, Madras.

S. RANGANATHAN ESQ., O.B.E., I.C.S.,
Commr. of Land Revenue and Commercial Taxes

C.K. VIJARAGHAVAN ESQ., I.C.S.,
Commr. of Civil Supplies and Separate Revenue.

V.N. KUDVA ESQ., C.I.E., I.C.S.,
Commr. of Land Revenue, Excise and Prohibition.

:-- From the Government, Revenue Department, Memorandum No.4585-ELC/46-6, dated 2nd July, 1947.

RESOLUTION:

The Board presumes that the Government memo cited above was issued without reference to the report called for by the Government earlier in their memo No.1679-F/46/6 (Revenue) dated 14-11-46, regarding the levy of ground rent. It submits the following remarks on the memo of 2-7-47.

2. Immovable property in towns consists of lands as well as buildings. So far as land is concerned, the Board is separately suggesting that the Madras system of ground rent, which involves an annual assessment of as much as practically 4% of the estmted value of the free-hold, may be adopted in the case of all municipalities and all lands everywhere used for other than agricultural purposes. Under that system the ground rent itself is revisable once in every 10 years with reference to the letting value of the site. The object of that proposal is for the Government to get a share of the unearned increment involved and as is well known the Madras rates are pretty stiff. The Government memo cited above is therefore answered by the proposals submitted to Government in B.P.Mis. 1255, dated 15-9-47 in reply to their memo No.1679-F/46-6, Revenue, dated 14-11-1946 so far as the taxation of land in urban areas is concerned.

3. As regards buildings, the fundamental fact to be borne in mind is that they cannot come into existence without the site on which they stand. The Property tax levied by local bodies has particular reference to buildings and their rent and of course involves the value of the land also on which the building stands. But the main subject of that taxation is the building and its letting value. What gives the building its letting value or any increase in it is not the building itself but the locality in which it is situated and the value of the locality. In other words, it is not solely the superstructure as such that contributes to the letting value and the unearned increment involved in it, but the site on which the superstructure stands. A larger and more convenient building will of course fetch a higher rent, but as between buildings of the same type situated in different places, that which is in a more convenient locality in greater demand will fetch disproportionately higher rent. The value of the site in view of its location and convenience will be fully taken into account in levying ground rents under the Madras City System. It therefore seems to the Board that there is no real case or necessity for a separate levy on the building itself, Provided ground rent is calculated on the basis refered

to above.

4. Moreover, the levy of a tax on buildings will be undesirable for the reasons indicated by the Government themselves in paras 4 and 5 of their memo. In any case, the present time will be most inopportune to levy any tax on buildings. Everyone is aware of the great difficulties involved in constructing buildings in the present time - difficulty in getting steel, cement, bricks, labour and trasnport for these. The fundamental necessity of the present day is more and better houses and any levy on buildings will retard the development of housing and the construction of office accommodation. Further, there is no guarantee that the present rise in value will be permanent. For instance, if the Andhra Province were to have its headquarters at Bezwada or at Rajahmundry, much of the demand for houses and buildings in Madras City would disappear and there is likely to be a slump. Similarly, when all the additional establishments employed by the various departments of the Government are gradually wounded up, the letting value of the lands and houses will fall.

Inasmuch as the value of the land and buildings is also dependent upon amenities provided for their use by the local body concerned, the claim of local bodies to a shre of the proceeds of a tax on immovable property, if not the whole of it, will be difficult to resist, as the Government themselves have pointed out.

5. Madras is a Province in which, compared to the rest of India, the Citizen is very heavily taxed. In a City he has to pay income-tax, sales-tax, amusement-tax, profession-tax, property-tax and ground-rent, and the levy of a further tax on immovable property may prove to be the proverbial last straw.

If such a tax were levied, it would be practically impossible to prevent the owner of the property from shifting it to the tenant. No provision in any proposed Act prohibiting such shifting will be really workable. So long as there is an inordinately large demand for property and its occupation, tenants are likely to pass on the sly some extra consideration over and above the legitimate rent. Nobody can prevent this. The net result would be a further clamour for increase in salaries and wages and further inflation, with the spiral ever increasing both in magnitude and velocity.

6. For the reasons set above the Board points out that it is neither necessary nor desirable to levy a tax on urban immovable property and that the proposal may be dropped

7. As regards an estimated revenue, the Board has reported separately with reference to Government Memo No.1679-F/46-6 (Revenue) dated 14-11-46 that it is quite impossible to estimate the increase in ground rent if the Madras system of ground rent is to be followed in all towns. It will be even more difficult to estimate the yield from a tax on buildings. The Board has no means of ascertaining quickly the value on the letting value of all the buildings in towns.

8. The Board invites in this connection attention to its remarks on the allied subject in B.P.Mis.1255, dated 15-9-47

/TRUE EXTRACT/

For SECRETARY.

To

The Secretary to Government;
Revenue Department,
Fort St. George,
MADRAS.

From

M.B. Chablani, Esq.,
Chairman, Madras City Improvement Trust
160, Mount Road, MADRAS.

To

The Secretary to Government
Revenue Department,
Fort St. George, Madras.

No. 403/47
Dated 6th October, 194

Sir,

Sub: Taxation - Urban Immovable Property Tax - Levy- Proposal - Remakks furnished.

Ref: Govt. Memorandum No.4585 ELC/46-6, dated 2-7-47.

With reference to Government Memorandum quoted above, I have the honour to state that the premises leading to the formulation of the proposal of levying a tax on Urban Immovable Property appears to be based upon the abnormal rise in land values in urban areas during the last 5 or 6 years and taxation is being suggested in order to enable Government to appropriate a fair proportion of the unearned income.

2. That there has been an inordinate rise in property value and that an appropriation of a substantial portion of the increase in value should accrue to Government for the benefit of the community are two postulates upon which there can be no disagreement. But, the question is whether,

(a) Government should appropriate the entire proceeds of such taxation to the General revenues or set it apart for specific purposes.

and (b) having regard to the phenomenal rise in the value of agricultural lands, such a tax should be confined to urban areas only.

3. If quite is any criterion, exemption of agricultural lands from taxation of this nature cannot be permitted. On the other hand, the question of valuation of agricultural lands and the increase in litigation which must follow it, as also the cost of its collection, probably militates against a levy of taxation of this nature upon agricultural lands.

4. This leads to the conclusion that taxation of urban lands for reasons stated in your Memorandum is being resorted to merely because of its practicability owing to the concentration of high value property in compact areas.

5. ~~This lea~~ It has to be admitted that rise in property values has been enormous. But in as much as this rise is due to the unfortunate circumstances of overcrowing in urban areas, I hold the view that any taxation designed to tap increase in land values in urban areas should be earmarked for the improvement of urban areas, housing etc. For, Municipalities are not sufficiently solvent to grapple with the problems of overcorwding which have given rise to increase in land values.

6. I am unable to comprehend how such a ~~taxation~~ can possibly enable Government to appropriate a substantial share of the unearned increment in land values. For, this can only be achieved by a levy rather than by taxation. Imposition of taxation necessarily implies capitalisation of increase in land values. Capitalisation would be justified if the increase in land values is caused by a general increase in wealth and a rise in prices in conformity with the general rise in the price level consequent upon

an improvement in the economic conditions of the population. In the present case, the rise is of a speculative nature and has been further aggravated by the low interest rate and paucity of avenues of investment together with large profits made by business people in a clandestine manner. As a rule, landed property in urban areas has never paid an adequate return on its capital outlay in the past and the investor has largely relied upon increase in land values after a long lapse of time. The present price levels in the real estate market are even more unfavourable in this regard and rather indicate a state of unstable equilibrium with every prospect of land values slumping in the not distant future.

7. I would also point out that the present purchasing power of the rupee as compard to the 1939 price level is somewhat higher than the present price of land as compared with its level in 1939. This disparity in itself indicates a state of inequilibrium. This factor, then - the disproportinate rise in land values as compared with the general economic level of the country - does not warrant taxation on urban property and the net result of such taxation may well place the ownership of a house beyond the reach of the averag middle classes. Nor can such taxation help in promoting housing activity by private enterprise for profit, for, as I have already stated, the present land values are not remunerative and the additional burden of taxation must detract from incentive for further investment. I feel sure that it is not the intention of Government to add to the difficulties of the Housing problem in urban areas which is so acute at the present time.

8. I have already stated that taxation of this type (a) will impose an additional burden upon land in urban areas and (b) cannot enable Government to appropriate a share of the unearned increment in land values. What is perhaps even more important is the fact that the unearned increment has already been collected by the original owners and the burden of the taxation proposed will fall upon the shoulders of those owners who have already paid highly inflated prices for the land. For this reason, the tax must bear heavily upon the community.

9. The imposition of such a tax is tantamount to an increase in property tax. I repeat that it cannot lay any pretensions to relieving the owner of a part of the unearned increment.

10. I suggest that any increase in property tax can only be justified either by an improvement in the economic conditions of the population indicating higher taxable capacity or by the provision of better amenities, which in their turn, depend upon taxable capacity. Income has certainly not kept pace with the rise in prices and taxable capacity of the population has certainly not increased. In the circumstances, the effects of such a tax may well be to depress the standard of living and to create a deterioration in the housing standards which are already woefully deficient.

11. The large property owner is bound to transfer his burden of taxation to the tenant and it would be idle to imagine that way and means can be devised to prevent him from doing so. I have already stated that landed property at present prices is not an attractive investment. With increased taxation, as contemplate there is no reason to believe that the owner will forego extra charges of taxation on his property which render returns on proper even less remunerative. With higher rentals, housing standards must still further deteriorate.

12. In Madras, duty is levied on transfer of property. Such a duty may provide the means for a fairer basis for the contemplated taxation. But even so, it does not enable Government to achieve the object of appropriating a substantial portion of the unearned increment in the value of land.

13. I would invite attention to the Capital Gains Levy which is more appropriately based and enables the Government of India to appropriate a proportion of the unearned increment of capital, and places the burden of the levy on the beneficiary. In contradistinction, in the case of the duty on transfer of property, the burden falls on the buyer and not on the beneficiary

4. At the present level of prices, the exemption levels proposed ill hardly provide adequate relief for the class of owner, who ast owns a house and lives in it and even finds it difficult to pay or its repairs. Under the present distressing conditions of ousing, any additional taxaion on property must work oppressively pon the poorer but major section of the population, which does not njoy economic security, and must in the long run lead to more nsanitary conditions.

5. I suggest that larger properties (in extent and accommodation) ould be subjected to heavy taxation without causing any hardship. or instance, I am unable to comprehend why in a City like Madras, arge compounds (many acres in extent) should be so highly taxed. consider that an extent of ten times the area built upon ay attach to the property as its compound and that the rest ay be taxed on the basis of valuation of land in the area, six er cent of which valuation may be regarded as the annual rental alue for the purposes of taxation. Government may even prepare a chedule of land in relation to the buildings thereon and correlate oth to the economic level of the population and levy taxation pon those urban properties which fall in the luxury group.

6. Government may also be inclined to levy taxation on commer- ial buildings where the monthly rental exceeds Rs.10/- per 100 Sq. t. levy of taxation on properties falling in that category will ause no hardship. That is not to say however that such taxa- ion will enable them to appropriate the unearned increment in the alue of the land.

7. In as much as the high cost of land is due to the unfortunate ircumstances of overcrowding against the background of inadequate ousing in urban areas - which needs considerable improvement - the demand of Local Bodies for the earmarking of any extra income from taxation in urban areas would be thoroughly justified and would even be irresistable.

18. I consider that if Government desire to explore fresh avenues of taxation on land, the best course would be to take powers for the control of land uses and impose taxation on change of land use. Such a measure would be in the nature of far-reaching reform and should prove to be a source of substantial income, having regard to the prospect of an expanding economy in India particularly in the field of Industry.

19. I would take this opportunity to point out that in the United States of America towns first attracted industry to themselves by a low level of taxation and the provision of excellent amenities and imposed heavier taxation after industries had established themselves within their limits. This was regarded as an excellent economic principle in the development of industry and towns. At the present stage, when India must expand industrially, increase in taxation may well prove to be a discouraging factor to the deteriment of improvement in the standard of living. I would again urge that increase in taxation must follow improvement in the economic conditions of the country and that heavy taxation at present will stifle the growth of industry to which India must look forward.

20. A reference has been made to the "betterment" provisions of the Madras Town Planning Act and the Madras City Improvement Trust Act. While the statement made in the memorandum is correct in respect of the provisions of the Madras Twon Planning Act, the provisions of the Madras City Improvement Trust appear to have been misunderstood. I also feel that the Madras Town Planning Act provisions were not deliberately designed to have the effect which they have had in practice. However that may be, the present tendency all over the world is to appropriate, for the benefit of the community, a major proportion of the unearned income and I suggest that this is only practicable by legislation controlling land uses and periodical valuation. This has been recommended by the Uthwatt Committee in the United Kingdom, although all their recommendations ha not yet been implemented. I consider that "Control of land use" is th best form of appropriating unearned increment for the benefit of [illegible] in the future. It will also be more equittable as it

will bring within its orbit agricultural lands and, what is perhaps more important, it will facilitate planning and rehabilitation by granting exemption where the needs of the community ~~deemed~~ demand such a course.

21. It would be erroneous to levy taxation on the analogy of Bombay and Punjab. Both these provinces are richer provinces and the taxable capacity of the population in these two provinces is definitely higher than in Madras - in the former by reason of the better industrial development and in the latter by reason of the large military pensions which the Punjabi citizens has enjoyed in the past.

I have the honour to be,
Sir
Your most obedient servant,

Sd. M.B. CHABLANI.
CHAIRMAN.

(TRUE COPY)

From

K.M. Unnithan, Esq., I.C.S.,
Director of Town Planning,
Old High Court Buildings,
1st Line Beach, Madras-1.

To

The Secretary to Government,
Revenue Department,
Fort St. George,
Madras.

L.Dis No.2615/47 Dated 14-4-1948.

Sir,

Sub; TAXATION - Urban Immovable Property Tax - Levy-proposals - Remarks offered.

Ref: Government Revenue Department Memo No.4585-ELC-46-6, dated 2-7-1947.

I have no other views than those expressed in the letter of the Inspector of Municipal Councils and Local Boards to Government No.L.Dis.27403/47, dated 21-8-1947.

Sd. x x x
For Director of Town Planning.

Copy to the Inspector of Ml.Cls. & Local Boards, Madras, with Inspector of Ml.Cls. & Local Boards L.Dis.No.27403/47, dated 21-8-1947.

(TRUE COPY)

OFFICE ASSISTANT
MADRAS RECORD OFFICE.

The file relates to a proposal to levy a provincial tax on the annual letting value of urban immovable properties in this Province, on the lines of the Urban Immovable Property Tax existing in Bombay and the Punjab.

2. The statement at (H) gives the outlines of the tax as existing in Bombay and the Punjab.

3. Paras 3-5 of the Govt. Memo dated 2-7-47 refer to the points which arise in connection with the proposal In that memo, the remarks of the Board of Revenue, Inspr. of Municipal Councils and Local Boards, Director of Town Planning and the chairman, City Improvement Trust Board were called for. Their replies have been received.

4. Views of the Board of Revenue. The Board states that the letting value of a building depends more on the site on which the building stands than on the building itself and that, therefore, if the site is fully taxed by the levy of ground-rent, fixed with reference to its location, there is no need for a separate levy on the letting value of the building. The Board adds that under the Madras City System of levying ground-rents, the letting value of the site of the building is taken into account in fixing ground -rent, that it (the Board) has separately recommended the extension of the Madras City System to moffusil municipalities, and that if that recommendation is accepted, there will be no need to introduce the proposed tax either for land or for building. The Board endorses the views referred to in paras 3-5 of the Govt. memo dated 2-7-1947, namely, (a) that the local bodies, whose finances are mostly unsatisfactory, and which have also partly contributed to the rise in the value of urban immovable properties by providing amenities, would demand that the proceeds of the proposed tax should go to them and that it would be difficult to resist the claim; (b) that the present rise in the value of urban movable properties being temporary in nature there is no need for the proposed tax; (c) that the proposed tax, if levied, should not be extended to areas where a betterment tax is levied or that only one of the two taxes should be levied in those areas; and (d) that the proposed tax, if levied, would be shifted by the owner of the property to the tenant of the property in spite of the any provisions to the contrary. The Board considers that the present, time, when there is need for more and better houses and it is difficult to consider them due to non-availability of building materials; is most inopportune for a tax of the kind proposed. The Board is of the opinion that the present high price of buildings will go down (a) after the formation of the Andhra Province with the resultant splitting of the Government Headquarters and (b) after the present temporary establishments are wound up. The Board also mentions that a citizen of this province is more heavily taxed than one in any other Province. The Board accordingly recommends that the proposal be dropped.

5. Views of the Inspector of Municipal Councils and Local Boards and Ex-officio Director of Town Planning.

The Inspector endorses the views referred to at A on pp.41-42 above. He states that the property tax is the main source of income of the Municipalities, that the rate of property tax in the Municipalities is generally about 20% of the annual rental value and in some cases even as high as 25% though all amenities have not been provided and that this rate will have to be raised in the case of many Municipalities-(a) to meet the cost of water supply and drainage schemes. dust-proof surfacing of Roads, Good buildings and playgrounds for Elementary

Schools etc. and/or (b) to give effect to the revised scales of pay of Municipal employees. The Inspector considers that, after this increase in the rate of property tax, property owners in very few Municipalities will be able to bear an additional Provincial tax. He points out that the buildings constructed after the war will have to be excluded from the proposed tax, as there is no question of increase in value in their case. He also points out that properties purchased after the war at the present market rates will also have to be excluded from the proposed tax, as the purchasers have not benefited by the unearned increment in the value of the properties. The Inspector ~~of M~~ is of the opinion, with reference to the view (d) at A above, that it will not be fair to levy a tax on the ground of increase in the value of the property a at the same time prohibit the property-owner from deriving any benefit out of the increase, by prohibiting him from enhancing the rent of the property. The Inspector estimates that a tax of 1% of the annual letting value of properties in Municipalities, excluding those subject to betterment contribution, will yield Rs.2 lakhs. He is against the levy of the proposed tax and, if it is to be levied, he suggests that the Govt. may, for the benefit of the local bodies, levy a surchange on sales tax at ~~x~~ ½ a pie per rupee and distribute the proceeds to the local bodies on population-basis.

6

6 Views of the Chairman, City Improvement Trust Board:

The Chairman, raises the question whether the phenomenal rise in the value of agricultural lands should not also be taxed and adds that probably administative difficulties like valuation of agricultural lands and consequent litigatic and cost of collection would militate against the imposition of such a tax. He says that the present rise in the value of properties in urban areas is not due to any general increase in wealth consequent on improvement on the general economic condition of the people, but due to overcrowding and that the value is likely to slump in the near future. The Chairman endorses the views referred to at A on pp.41-42 above and also ~~xx~~ those at B and C on page 42 above. He is against the levy of the proposed tax and would suggest the following methods of taxation, for the consideration of the Govt:

(i) Taxation of large compounds in cities i.e. compounds where the open area is more than 10 times the built area in extent.

(ii) Taxation of commercial buildings with a monthly rental exceeding Rs.10/- per 100 Sq.ft.

(iii) Taxation of changes of land use.

The Chairman recommends item (iii) particularly, in view of the fact that India is in the process of industrilisation. He adds that "control of land use" was recommended by the Uthwatt Committee in the United Kingdom. He also points out that the taxation will bring within its arbit agricultural lands and will facilitate planning and rehabilitation by enabling grant of exemption where the needs of the community demand such a course. The Chairman finally observes that it would erroneous to copy Bombay and the Punjab in regard to the levy of the proposed tax, as these Provinces are richer than Madras - Bomba owing to its better industrial development and the Punjab with its large Military pensions.

7. It will thus be seen that the Board of Revenue, the Inspector of Municipal Councils and Local Boards (and Ex-officio Director of Town Planning) and the Chairman, City Improvement Trust Board are all against the proposed tax.

8. It may be mentioned in this connection that the Govt of Sind in Pakistan have recently introduced.

a Bill for the levy of a Provincial tax on urban immovable properties. A copy of the Bill is put up below. The Bill follows the Bombay Act very closely except for the following:-

(1) While the Bombay Act extends to certain specified major Municipalities only, the Sind Bill contains provision for the extension of the proposed tax by notification by the Provincial Govt. to any area including villages.

(2) While the rates in Bombay are 5% for small properties and 10% for big, the rates proposed in the Sind Bill are 2½% and 5%.

(3) The Sind Bill provides for exemption of open lands (i.e. lands which are not built upon or enclosed) from the proposed tax, whereas there is no such provision in the Bombay Act.

(4) in Bombay, remission or refund of tax is due when the property is vacant or unproductive of rent for not less than 60 consecutive days or is wholly or in part demolised or destroyed by fire or otherwise deprived of value. The Sind Bill provides for remission. following remission of property tax.

9. This Govt. are considering separately a proposal to levy a provincial tax (non-recurring) on the capital invested on new buildings and extensions in urban areas. The remarks on the proposal of the Board of Revenue, the Inspector of Municipal Councils and Local Boards (and Ex-officio Director of Town Planning) and the Chairman, City Improvement Trust Board have been received. The remarks of the Chief Engineer and the Provincial Town Planning Enquiry Committee are awaited.

10. In the circumstances stated in para 4-(3) above, it is for orders whether the proposal in this file of levying a provincial tax on the annual letting value of urban immoveable properties will be dropped.

11. If considered necessary, the proposal of the Chairman, City Improvement Trust Board, for introducing legislation for the control of land uses and his two other proposals mentioned in para 6 above may be taken up separately for examination.

12. The remarks of L.A., E. & P.H., Development and Finance may be invited.

The proposed tax, if it is to be levied, will presumably be made applicable only to Municipalities in the first instance and extended later on to such of the major panchayats where the building values show a rise.

The tax will affect the development of the revenues allotted to the local bodies, as property tax is at present one of their major sources of revenue. Even if the entire revenue is taken over by the Govt. and an assignment of revenue is made to the local bodies there will still be the same objection as they will be getting only a fixed amount.

2. Two of the three suggestions under by the Chairman, City Improvement Trust, viz: items (i) & (ii) mentioned in para 6 on p.43 supra have already been raised in the file re: revision of ground rents. The file on the subject is lying over pending issue of orders on the file re: appointment of a Committee to examine and codify Land Revenue, as this is one of the questions which will be referred to the Committee when appointed

Item (iii) on p.43 supra is a new suggestion but it is doubtful whether by itself it will bring in any appreciable source of revenue.

3. In these circumstances, it is for orders whether the proposal in this file will also be referred to the Land Revenue codification Committee.

L.A., E.P.H., Dev. & Fin. may however see/the ~~fi~~ in first instance and offer their remarks.

Sd. x x x
17-5-48

The Board and the Chairman of the City Improvemen Trust have given weighty reasons against the levy of any provincial tax on the lines of the Bombay or the Punjab under Immoveable Property Tax. The proposal may perhaps be dropped.

Sd. x x x.
1-6-48.

I agree with D.S. the proposal bristles with difficulties and he will run up against the claims of Municipalities, Improvement Trusts, Town Planning authorities etc.

Sd. x x x
2-6-48.

L.A./ E & P.H./ Dev/ Fin.

L.A. Deptt.

The levy of a tax on urban immovable property by the Government for Provincial purposes will be detrimental to the development of income by municipalities under property tax and by urban panchayats under house-tax. On account of the need for the execution of protected water-supply and drainage schemes in urban areas, it has become necessary to increase in the near future the rates of property tax in municipalities and house-tax in urban panchayats considerably. So there will be no scope at all for the Provincial Govt. to tap the same source by the levy of the proposed tax on urban immovable property. This Dept. may recommend that the proposal to levy the Provincial tax may be dropped. The case may be passed on to E. & P.H.

Sd. x x x
5-6-48.

E. & P.H. (F2)

The notes at pages 41-46 ante may be perused. This Dept. may agree that the proposal to levy a Provincial tax on the annual letting value of immoveable properties may be dropped. The file may be passed on to Devt.

Devt. Dept.

TO A.S.

Notes on pp. 41-~~46~~ above may be perused. It may be mentioned in this connection that Provincial Housing Committee has recommended the creation of a "Housing fund" by the levy of various kinds of taxes One of the taxes suggested is a surcharge of 20 per cent on property tax in all Municipalities and Major Panchayats to be collected by Local authorities and paid into the Housing Fund. The remarks of R.C.S. on this recommendation are awaited. No remarks seem called for in this Deptt. On the proposal dealt with in this file. Public Department who are now dealing with the subject "Rent Control" may also see the file

Pub (Gl.-c) Dept.

The notes from page 41 ante may be perused. The proposal in this file is to levy a provincial tax on the annual letting value of urban immoveable properties (buildings and lands) in this Province as the lines of the ~~xxx~~ urban Immoveable Property Tax existing in Bombay and the Punjab. The Board of Revenue, Inspector of Mcl. Councils and Local Boards, etc. who were consulted in the matter are not in favour of the proposal. The Revenue Department to whom the file belongs proposes to agree with the views of the Board of Revenue etc. and drop the proposal. However, the remarks of L.A., E.& P.H. Development and Finance are invited before dropping the proposals finally. The file has been sent to this Dept. also for remarks with reference to Madras Buildings (Lease and Rent Control) Act, 1946.

Submitted that if the proposed tax is levied on the buildings in addition to the several other taxes already levied, the landlords will shift this additional burden to the tenants by an increase in the rents. In view of the already steep rise in the cost of living, it does not appear appropriate at this stage to add any additional burden on the people by way of increase in rent. In this view the proposal need not be accepted in this Department. With these remarks the file may be passed on to Finance.

I agree.

Sd. x x x
10-8-48.

Finance (Accts.A) Dept.

(Previous Finance note on page 36 above)

The proposal in this file relates to the levy of a provincial tax on the annual letting value of immoveable properties in urban areas. The proposal is fully dealt with in the notes on pages 41-49 above.

The Board of Revenue, the Inspector of Municipal Councils and Local Boards (and Ex-officio Director of Town Planning) and the Chairman, City Improvement Trust Board, who were consulted on the proposal, are all against it. Revenue consider that the Board and the Chairman, City Improvement Trust Board have given weighty reasons against the levy of any provincial tax on the lines of the Bombay or the Punjab Urban Immovable Property Tax, and that the proposal bristles with difficulties. They suggest that the proposal may be dropped. L.A., E.& P.H. and Public agree with Revenue. Finance also may agree.

Under the present conditions, it is desirable and essential to tap new sources of revenue both for local bodies and the Government. It is also generally to the interest of the Government to increase the revenues of local bodies, as local bodies are now depending upon the Government for grants in many cases which may be reduced, if the finances of local bodies improve. The Government are also now giving to the local bodies the net proceeds of the Entertainments Tax. If the revenues of the local bodies increase due to the allocation of news sources of revenue or on account of an enhancement of the existing taxes, the Government may retain the proceeds of the Entertainments tax for the benefit of the provincial revenues. In the circumstances, the question of tapping a new source of revenue may be examined without special reference to the question as to whether it would benefit local bodies or the Government.

2. The question raised in this file is as to whether a tax may be levied on the annual letting value of the immovable properties in urban areas. All Municipalities now levy a half-yearly tax on buildings and lands known as the Property Tax based on the rental value. No maximum rate has been fixed in the Madras District Municipalities Act for this tax; but the Government have fixed a conventional limit upto which Municipal Councils may increase the rate of Property Tax. At present, the maximum rate of tax is not levied in all cases. But the Govt. may insist on the levy of the maximum rate of taxes, wherever it is justified. The levy of a tax on the annual letting value of immovable properties in urban areas will therefore be in effect only an increase in the existing rate of Property Tax. The main point is whether the property owner can bear an increase in the rate of property tax. If he can do so, there seems to be no reason why the Govt. should not either force the local bodies concerned to increase the tax to the extent possible or alternatively, themselves ley a tax in the form of a surcharge on the tax already levied by the local bodies and appropriate the proceeds for provincial purposes. The argument that the annual letting value which is very high may fall sometime later does not seem to militate against the proposal, as a tax which will be levied at a percentage of the letting value will naturally fall, as the letting value decreases and so need not result in any hardship to the property owner up to certain stage.

However, as the Board of Revenue, has pointed out, any increase in the rate of property tax would be shifted by the owner to the tenant in spite of any statutory provisions which may be made to prohibit it, and as a consequence, middle class people who require relief in the matter of housing accommodation, etc., will be hit only the harder.

3. The Board of Revenue has referred to the proposal made by it separately for the extension to Mofussal Municipalities of the Madras City System of fixing ground rent and stated that there will be no need to introduce separate provincial taxes for lands or buildings. If ground rents can be increased so as to result in a substantial additional revenue to the Government representing a share of the unearned increment to the property owners on account of the rise in the value of their property, the object will be achieved and no separate provincial tax need be levied.

4. In regard to the increase in the value of immovable property, two points arise - (1) increase in the capital value due to various factors like the provision of better amenities in the locality, development of the locality, inflationery conditions etc. In so far as the increase in the value is due to any special town planning scheme of a local body or the Improvement Trust, a betterment tax can be levied but such a tax cannot cover improvements due to extraneous causes. This is where the Government have to step in and take a share of the unearned increment in capital value for the benefit of the Province. Even now, a surcharge is levied for the benefit of local bodies on the stamp duty payable in respect of instruments of sale, etc of immovable properties. It is not uncommon for the value to be shown at a reduced figure in the documents registered in order to evade the levy of higher duty, and therefore only a small portion of the increase in the capital value of lands and buildings is now appropriated by the Government and the local bodies, through this method of taxation. The question of levying a provincial tax on the capital investment in new buildings and extensions in urban areas is under separate consideration. If such a tax is levied on new buildings and extensions, there will not be any justification for the levy of transfer

tax on the letting value of such property. Similarly, if an adequate tax is levied at the time of sale or transfer of immovable property, a further tax on the letting value need not be levied. The scope for the levy of an increased tax or an additional tax based on the letting value will therefore arise mainly in respect of existing lands and buildings, which will not be sold or transferred in the near future, but will continue to earn a large income by way of rentals. Either the local bodies or the Government should tax such property adequately. Finance may suggest that this point may be examined further.

6. The Chairman, Madras City Improvement Trust has suggested special taxation of large compounds in [illegible] cities, taxation of commercial buildings and taxation of changes in land use. Revenue may be asked to take up these suggestions for examination separately. It may be noted in this connection that the Government are undertaking legislation to prohibit the use of wet lands for building purposes.

7. The Inspector of Municip[illegible] stated that if a provincial tax is levied on the letting value of immovable properties in urban areas, the Government may for the benefit of the local bodies levy a surcharge on sales tax and distribute the proceeds to the local bodies on population basis. As already observed, if local bodies themselves are made to increase the property tax to the extent possible, it is not essential that the Government should levy a separate provincial tax on properties. In any case, the suggestion that any share of the sales tax should be passed on to the local bodies need not be pursued. The sales tax, which is now the most important source of provincial revenue should remain entirely provincial.

I agree that the tendency is for the owner to pass on the tax to the tenant and under present conditions, the poorer and middle calsses are not able to insist on the owner being the tax, in accordance with the statutory or other provisions. This has happened in regard to the recent revision of the property tax by the Corporation and will no doubt happen again if the present measure is pursued. The present time is inopportune for the measure.

The possibility of mpties. and other local bodies increasing the current rates, without exceeding the prescribed limits, may be examined by L.A.

I agree that Rev. may examine the suggestions of the Chairman, City Improvement Trust separately.

Jd. x x x 25-8-48

Revenue Department.

TO U.S.

The file relates to a proposal to levy a provincial tax on the annual letting value of urban immovable properties in this Province on the lines of the Urban Immovable Property Tax existing in Bombay and the Punjab. The Board of Revenue, the Inspector of Municipal Councils and Local Boards (and Ex-officio Director of Town Planning) and the Chairman, City Improvement Trust Board, who were consulted on the proposal are all against it. This Department considered that the Board of Revenue and the Chairman, City Improvement Trust Board had given weighty reasons against the levy of the proposed tax and that the proposal bristled with difficulties. This Department therefore suggested that the proposal might be dropped. L.A., H. & P.H. and Public [illegible] which deals with ent Control") agree with this Department. Finance consider

that the present time is inopportune for the measure. For Orders whether the proposal may be dropped.

2. In this connection, the Chairman, City Improvement Trust Board, has suggested the following methods of taxation for the consideration of the Government:

(i) Taxation of large compounds in cities, i.e. compounds where the open area is more than 10 times the built area in extent:

(ii) Taxation of commercial buildings with a monthly rental exceeding Rs.10 per 100 sq. ft.

(iii) Taxation of changes of land uses: Finance have suggested that the above proposals may be examined separately.

Items (i) and (ii) above have
in the file regarding revision of ground rents. The file on the subject is lying over pending issue of orders on the file regarding appointment of a Committee to examine and codify Land Revenue as this is one of the questions which will be referred to the Committee when formed. The latter file has been circulated to H.Pr. for approval of the draft terms of reference to the proposed Committee. The above two suggestions (items ~~ii & iii~~) have not been specifically included in the draft terms of reference to the proposed committee. For orders whether they may be done so now.

Items (iii) above: This is a new suggestion. The Chairman, City Improvement Trust Board has recommended ~~that~~ this item particularly in view of the fact that India is in the process of industrialisation ~~and it seems~~ doubtful whether the proposed tax will yield any substantial revenue for our present needs. It is, therefore, for consideration whether the suggestion should be pursued and if so, it is for orders whether it may also be referred to the proposed Land Revenue Committee.

is now in the early stages of industrialisation

3. It may be mentioned in this connection that this Government are also considering separately a proposal to levy a provincial tax - (non-recurring) on the capital invested on new buildings and extensions in urban areas. The remarks on the proposal of the Board of Revenue, the Inspector of Municipal Councils and Local Boards (and Ex-officio Director of Town Planning), the Chairman, City Improvement Trust Board, Chief Engineer and the Provincial Town Planning Enquiry Committee have been received and the file is being submitted separately.

4. As regards X on page 53 above, the file may be sent to L.A. for taking relevant extracts and taking separate action, after orders are passed on the other points.

SD. X X X
10-9-48

This file started on a suggestion from a retired District Judge to tax unearned increment values of land in urban areas. The Secretariat discussion on the suggestion was generally to the effect that the proposal was not worth pursuing as the abnormal rise in land values was likely to disappear in a short time. In circulation, however, it was ordered that the suggestion should be further examined and that opinions should be obtained from (i) the Board of Revenue, and (ii) Inspector of Municipal Councils and Local Boards) On the suggestion of the then E & P.H. Secretary, the Director of Town Planning and Chairman, City Improvement Trust Board

were also consulted. In inviting their opinions, details were furnished to them of the measures undertaken in Bombay and Punjab. They were specifically asked to examine (i) whether the property owners could bear the increased rate, and (ii) whether there would not be a widespread clamour from the local bodies for getting the benefit of the increased taxation considering the unsatisfactory state of the finance of most local bodies in the Province and (iii) whether the areas where there was a provision for the levy of betterment tax should be exempted.

2. On full consideration of the opinion received, it was felt that the proposal was likely to create a number of difficulties. The local bodies would certainly claim that the benefit should go to them. The proposed tax was not likely to yield a substantial income except for a short while. The taxation was likely to be passed on by owners to the tenants. Considered on the whole, therefore, there were weighty reasons against the imposition of such a tax. The further reaction in the Secretariat has also been unfavourable. The Chief Secretary and the Finance Secretary feel that the present time is inopportune for the measure. The proposal to levy a tax on the lines of the measures adopted in Bombay, Punjab, or Sind ~~on the letting value of immovable properties in urban areas~~ may therefore be dropped.

3. In this connection, it is not known whether H.M. (Finance) had any discussion with the Mayor, Commissioner and others. H.M.(Fin) had also minuted at the time that if the local bodies clamoured for the benefit, the Govt. could give it to them and take away the entertainments tax from them. This suggestion need be examined only if it is decided to impose any such tax on immovable property.

4. As a result of the consultations ordered, the following new points have arisen and are examined below:

(1) The Board of Revenue has suggested that so far as the taxation of land in urban areas concerned, the proposal to adopt the System of Ground Rents would enable th Government to get a share of the unea increments on land. The ground rent is sable once in ten years.

This suggestion of the Board is already pending before the Government. The file is lying over pending issue of orders regarding the appointment of a Committee to examine and codify land revenue.

(2) The suggestion of the Inspector of Municipal Councils ~~and Local Boards~~ that in case the proposed tax is levied, the Government should levy a surcharge on sales tax for their benefit is clearly not acceptable.

(3) The possibility of the local bodies enhancing the rates of property tax to the maxima possible with a view to meet the expenditure on development schemes and to give effect to the revised scales of pay of their employees may be examined by L.A. Such an increase in the taxation would certainly bring in the benefit of a share of increment values of immovable property to the local bodies. If the local bodies are to appropriate this benefit, the suggestion of H.M.(Fin) whether would not part with the income from the entertainments tax may be examined also.

4) The chairman, City Improvement Trust has made rather

a bold suggestion that there would be greater justificatior for the Government to get a share of the phenomenal rise in the value of agricultural lands.

Perhaps this suggestion may also be put up to the Committee proposed to be appointed for examining the land revenue system. I think this suggestion is worth pursuing and if adopted would bring in to the State a substantial revenue to undertake vast development schemes, and which may be expended only for the benefit of rural areas.

(5) A suggestion has also been made by the Chairman that large unbuilt compounds in City, i.e. compounds where the open area is more than 10 times the built area, should be taxed.

This suggestion may be examined further in consultation with the Commissioner, Corporation, and the Board.

(6) At present, commercial buildings pay exhorbitant rents and the suggestion of the Chairman that a tax can be levied on commercial buildings where the monthly rental exceeds Rs.10/- per 100 sq.ft. may be pursued.

We may consult the Board on this also.

(7) Another important suggestion from the Chairman, is that there should be a tax on changes of land use.

This would be particularly useful in the present changing phase of the economy in India particularly in the field of industry. This is regarded by him as likely to bring in a substantial income. It is for orders whether this suggestion should also be referred to the proposed Land Revenue Committee.

5. The proposal to levy a provincial tax on the capital investment on new buildings and extensions in urban areas is separately under consideration.

6. To sum up, the proposal to levy a tax on the lines of the measures in Bombay, Punjab and Sind is inopportune at present time. Local bodies might exploit the provisions of the property tax the maximum limits possible, and may part with the entertainment income.

The proposed tax on capital invested on new buildings and extensions and the proposal of the Board to extend the Madras System of Ground Rents to other urban areas would by themselves bring in a fair share of the revenue likely to be realised from such a measure.

Sd. x x x
22-9-48

MINUTES OF THE HONOURABLE ~~MINISTER~~

The proposal may be dropped.

This file relates to the proposal for the levy of a provincial tax on the annual letting value of urban immovable properties in this Province on the lines of the Urban Immovable Property tax existing in Bombay and Punjab and Sind. It was ordered in circulation in September, November, 1948 that the proposal should be dropped. On return from circulation the file was submitted to D.S. for his reference in connection with the examination of the other proposal (dealt with in linked file) to levy a non-recurring tax on the capital invested on new buildings and extensions, in urban areas. Both the files were returned by D.S. consequent upon the decision to pursue a new proposal to levy a betterment tax equal to 25% of the increase in value between 1938 and the date of sale in respect of sales of immovable properties in all municipalities, major panchayats and the Corporation of Madras. This new proposal is dealt with in N Section of this Department.

2. It may be mentioned in this connection that L.A. have got a file in which a new levy is under active consideration. The proposal is to levy a surcharge of 12½% on the property tax in all municipalities and house tax in panchayat areas. The income from this new tax is to be appropriated for educational purposes. L.A. has therefore suggested that the necessary legislation might be undertaken by the Education and Public Health Department. In the connected file, it has been suggested that this Department may endorse this view.

3. It will be noted that no orders have been passed on the new points raised by the previous Under Secretary in subparas 3-7 to 7 of para 4 of his note on pp.56-58 above. It is presumed that these points need not be pursued further in view of the decision to drop the main proposal. For orders whether the papers in this file may now be closed.

No Orders were passed in circulation on these points and it is presumed that the intention is that the suggestion need not be proceeded with further.

Sd. x x x
24-2-49.

No action is necessary on this file now in view of the recent cabinet decision to levy a 12½% surcharge on property tax in the City of Madras, municipalities and major panchayats.

Sd. x x x
26-2-49.

TO A.S.

Please see the orders above.

2. The papers may be recorded for facility of future reference.

Sd
(2.3.49)

~~Sd. x x x~~
~~2-3-1949.~~

/TRUE COPY/

A. Thangavelu
Office Assistant
to the Madras Record Office